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**Criteria for Responsible Business Practice in SMEs:  
An exploratory case of U.K. Fair Trade Organisations**

**Running head: RBP, SMEs and Fair Trade Organisations**

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Corporate Social Responsibility  
Fairtrade  
Fair Trade  
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**Abstract**

This paper develops a set of 16 criteria, divided into four groupings, for responsible business practice (RBP) in Small and Medium-Sized Enterprises (SMEs) drawn from the existing SME/RBP literature. The current lack of a general set of criteria against which such activity can be judged is noted and this deficit is redressed. In order to make an initial assessment in support of the criteria so derived, an exploratory feasibility study of RBP in U.K. Fair Trade organisations was conducted. The findings from this study show that most but not all of the RBP criteria seem to be applicable to U.K. Fair Trade organisations but it is recommended that the complete set of criteria continues to be used in further research until such time as there is a general consensus as to which criteria are appropriate. Implications for RBP in small businesses in general, and for Fair Trade organisations in particular, are drawn out and suggestions for further research are identified.

## **Criteria for Responsible Business Practice in SMEs: An exploratory case of U.K. Fair Trade Organisations**

### Introduction

This paper focuses on developing a set of criteria for responsible business practice (RBP) amongst Small and Medium Sized Enterprises (SMEs). While there is a developing literature in this area, there is currently no agreed set of criteria against which such activity can be measured. Without such criteria research in this area could be conducted on a basis which makes comparison difficult. Hence, the initial contribution of this paper is to construct such a set of criteria from the small business ethics literature.

In order to make an initial assessment of the criteria so derived, they were applied to U.K. Fair Trade organisations. Given that Fair Trade organisations have a requirement to abide by RBP criteria such as those set by the International Fair Trade Association (IFAT), such organisations provide a suitable purposive sample against which to initially test the criteria. Equally, no such study has yet been undertaken on Fair Trade organisations and so the paper also makes a contribution to the developing literature on Fair Trade.

The paper, then, proceeds as follows. First, the literature related to RBP in SMEs is reviewed and from this a set of criteria is derived, together with a number of other variables to be measured in such research. As the sample group is comprised of Fair Trade organisations there is a brief review of the Fair Trade literature before the method for the exploratory study is described and the results reported. A discussion follows and implications both for RBP in small businesses and for Fair Trade organisations are drawn out. Suggestions for further research are identified.

### Responsible Business Practice in SMEs

Although we have used the term RBP, and defend its use below, the literature on RBP in SMEs is, of course, set within the broader literature on Corporate Social Responsibility (CSR). The literature on CSR and SMEs is limited when compared with the equivalent literature related to large business, but it is now burgeoning – see Moore & Spence (2006) for a summary. There is a general consensus, however, concerning the danger of simply taking CSR as related to large companies and applying it to SMEs (CSR Magazine, 2002; Fassin, 2008; Graafland *et al.*, 2003; Jenkins, 2004; Southwell, 2004; Spence & Rutherford, 2003). While SMEs are, themselves, not a homogenous group, it is clear that small is different and, generally, informal (Fassin, 2008; Graafland *et al.*, 2003, p.57). In some cases there is a link between the owner-manager and the firm and, hence, personal choices can affect activities at the firm level (Spence & Rutherford, 2001, p.127). There is, therefore, at least an implied link to entrepreneurship and entrepreneurial activity (Fassin, 2008; Fisscher *et al.*, 2005; Hannafay, 2003; Lahdesmaki, 2005; Wempe, 2005 and see also Lepoutre & Heene, 2006, p.261-262), although this is not explored here directly since it relates more to a particular type of business person, (who generally pursues a

growth and profit-maximising strategy), than to SMEs' attempts at integrating CSR within their activities.

SMEs are not only informal and in some cases owner-manager driven, but another factor emerging from the literature is that social relationships and networks can be an integral part of the business (Spence & Rutherford, 2003, p.2). Indeed, Lawrence *et al.* (2006) refer to the use of networks as a method of encouraging SMEs to develop sustainable practices. Links to the community may well therefore be both an intrinsic part of how SMEs behave, and something to be encouraged, rather than something to be regarded as a 'bolt-on' activity. However, Curran *et al.* (2000) and Besser & Miller (2001) both found that community links are not necessarily such an intrinsic part of SME activity, so that such links, while desirable from a CSR viewpoint, cannot be assumed. The main point to emerge here, however, is that SMEs may well engage in socially responsible practices without necessarily viewing such activity in this way. Indeed, while an early study showed that half of the European SMEs were involved, to different degrees, in external socially responsible causes (European Commission, 2002), the extent to which these businesses would explicitly articulate that they were involved in such activity was less clear.

### *Terminology*

That SMEs may well be doing CSR without knowing it or calling it CSR, is linked to the issue of terminology. Southwell (2004, p.100-101) discusses this and the problem of applying CSR directly to SMEs. While within the study she reports "corporate social responsibility" was the most common phrase, it was not seen as the most appropriate. Jenkins (2004, p.52) suggests "business community interaction" but this seems unduly restrictive to one particular dimension. Murillo & Lozano (2006, p.237) argue for "responsible competitiveness", a term which is recognised in a recent European Parliament resolution on corporate social responsibility (though not specific to SMEs) (European Parliament 2007, p.4), while Lepoutre & Heene (2006) use "small business social responsibility". However, "responsible business practice" was a reasonably popular alternative term in the study on which Southwell reports and, when combined with her suggestions of emphasising the totality of this activity and similarly emphasising the pragmatic value to the business of such engagement, it seems to be appropriate. The same term also finds recognition in the European Parliament resolution referred to above (European Parliament, 2007, p.5). This is therefore used henceforth and abbreviated to RBP.

### *Classifications*

A further issue in the literature is that various attempts have been made to classify SMEs in relation to RBP. Southwell (2004, p.99-101) classifies SMEs into six different types: Ben & Anitas (social enterprises); Arthur Daleys (financially oriented); One-offs (relatively minimal experience of engagement with RBP); DIYers (fiercely independent); smart pragmatists (recognise the business benefits of RBP); and enlightened pragmatists (similar to smart pragmatists but "motivated by broader, long-term, societal goals" (*ibid.*, p.99)). Spence & Rutherford (2001) provide a different classification based on profit-maximising versus profit-satisficing *perspectives* on one dimension and socially active versus socially inactive *practices* on the other. Their resultant 2x2 matrix identifies profit maximisation; subsistence; enlightened self-interest; and social priority as four different types. A further classification is based on a simple dichotomous division between "champions" for

RBP (Jenkins, 2006) or, alternatively, SMEs that are “active” in social and environmental actions (Murillo & Lozano, 2006) compared with those that are neither champions nor active.

#### *Strategies for organising RBP*

Graafland *et al.* (2003) draw on the work of others and identify three different strategies for organising ethics (whether in SMEs or otherwise). First is the compliance strategy where the focus is on required behaviour. Second is the integrity strategy that relies on the responsibility and integrity of individual employees but based on clearly defined core values and training to enable employees to apply these values. Third is the dialogue strategy which pays attention to the expectations of the stakeholders of the firm and “focuses on responsiveness to the ideas, interests and values of others” (Graafland *et al.*, 2003, p.47). Although these strategies are complementary, their research findings suggest that, where any kind of strategy is used by SMEs, the dialogue strategy predominates (37%) over the integrity strategy (19%) and the compliance strategy (7%).

This suggests that SMEs may be more “socializing” in their approach to RBP, incorporating “a dialogic approach to accountability based on reciprocal relationships of mutual dependency” (Spence, 2004, p.120). The alternative “individualizing” approach would rely on more formal accountability mechanisms such as “social and environmental accounts and audits and corporate governance and various legal frameworks to protect processes of disclosure of unethical practices” (*ibid.*, p.119-120). Spence (*ibid.*, p.125) confirms the socialising nature of accountability to employees through dialogue and continuity of employment and also integrity towards clients and competitors where, particularly in relation to clients, relationships with the owner-manager may well be on first name terms. Both Graafland *et al.* (2003) and Spence (2004) therefore indicate the predominance of dialogic relationships in SMEs with informality rather than formality (Gray *et al.*, 2006) likely to be evident in relation to RBP in SMEs. Fassin (2008), arguing from a practitioner perspective, is vehement in his defence of retaining the informality of RBP in SMEs.

#### *Criteria for RBP in SMEs*

With this as background we turn to identifying a set of criteria against which to judge RBP in SMEs. While the informal, dialogic approach to RBP in SMEs might seem to suggest that establishing criteria runs counter to this by apparently formalising RBP, it is clear both from the literature and from practice that some criteria can be established, and certainly for research purposes such criteria are clearly necessary. The establishment of such criteria does not, of course, determine the research method that might be used to identify whether the criteria are being satisfied in any particular SME (see Spence & Rutherford (2003) and Moore & Spence (2006) for discussions of appropriate research methods). Although in the exploratory study reported below the use of web-site disclosure and self-reports are used to determine whether the criteria are being met, ethnographic methods may well be suited to exploring the way in which some of the criteria are actually met. Equally, surveys might be an appropriate method.

In determining a set of criteria, then, in addition to items to be included from the preceding discussion, the most helpful criteria are found within European Commission (2002), Graafland *et al.* (2003), Jenkins (2004), Lahdesmaki (2005),

Southwell (2004), Small Business Service (2002) and Spence (2004). Tencati *et al.* (2004) also provide a comprehensive list of criteria, although these are not specific to SMEs. Jenkins (2006, p.248) and Perrini *et al.* (2007, p.297-8) also provide lists of criteria. Neither of these papers was available at the outset of this research, though in both cases the broad categories (mainly stakeholder groupings) are consistent with those used here. Drawing from the available sources, a comprehensive set of criteria containing 16 variables was derived,<sup>1</sup> and are shown in Table 1. In drawing together the RBP criteria it was immediately noted that several of these may have little relevance to the U.K. as opposed to the European context from which they were drawn. However, it was decided to include all the criteria in the exploratory study and to comment further once the empirical data from the study was available.

Four key groupings emerged from the criteria as follows:

- Governance of RBP
- Employees in the organisation
- Stakeholder relationships
- External reporting and monitoring

The 16 criteria are not split equally between the four identified groupings, but rather each grouping reflects the common element arising from a collection of discrete variables. The groupings demonstrate the holistic approach to RBP from an internal organisation perspective (governance and employees) and to the external environment (stakeholder relationships and reporting and monitoring). Within the current SME literature itself the groupings identified are recognised but as separate areas. For instance, concerning governance and SMEs, see Abor & Biekpe (2007) and Gray (2006); for employees, see Devins *et al.* (2004) and Bacon & Hoque (2005); for stakeholder relationships, see Kusyk & Lozano (2007); and for reporting, see Fassin (2008). Drawing these previously discrete groupings together provides a suggested framework with a holistic view of RBP in SMEs.

	Criterion	Description	Search terms
<b><i>Governance of RBP</i></b>			
1	Profit motive	Degree to which the maximisation of profit is not a clear priority or is regarded as a constraint rather than a priority	<b>profit(s)</b>
2	Code of conduct	Code of ethics, values statement / rules of conduct	<b>Code of conduct</b>
3	Ethics committee	A committee with responsibility for implementation and monitoring of a code of conduct or ethical matters in general	<b>ethics committee</b>
4	Board member	Member of the Board with specific responsibility for ethics issues	<b>ethics director</b>
<b><i>Employees in the organisation</i></b>			
5	Staff handbook	Internal document clarifying the position of employees on labour conditions, rules etc.	<b>staff handbook</b>
6	Training for employees	Training in relation to codes of ethics and their application	<b>ethics training</b>

7	Responsibility towards employees	Skill development Work-life balance Health and well-being	<b>employee</b> <b>employee welfare</b> <b>employee skills</b> <b>employee health</b> <b>employee well-being</b> <b>staff</b> <b>staff welfare</b> <b>staff skills</b> <b>staff health</b> <b>staff well-being</b>
8	Confidential person	Someone independent to whom employees can turn	<b>mentor</b> <b>confidential person</b>
<b><i>Stakeholder relationships</i></b>			
9	Responsibility towards the environment	Environmental policy Recycling Reducing waste	<b>environment(al)</b> <b>sustainable(ility)</b>
10	Responsibility towards the community	Support sporting activities Support cultural activities Support health and welfare activities Support educational and training activities Give preference to personnel from socially deprived groups when recruiting Participate in public affairs or political process on behalf of the enterprise	<b>community(ies)</b>
11	Responsibility towards suppliers	Ethical sourcing policy and practices	<b>supplier(s)</b> <b>producer(s)</b>
12	Responsibility towards customers / clients	Product / service safety Product / service quality Pricing / Value for money Customer satisfaction Marketing information	<b>customer(s)</b> <b>client(s)</b>
13	Responsibility towards competitors	Behave responsibly in relation to customers Collaborate appropriately	<b>competitor(s)</b>
<b><i>External reporting and monitoring</i></b>			
14	Certification	ISO 9001 (quality) ISO 14001 (environmental) Investors in People	<b>ISO9001</b> <b>ISO14001</b> <b>investor(s) in people</b>
15	Communication with stakeholders	Communication with: Employees External shareholders Customers Suppliers Government (local or national) Media	<b>stakeholder(s)</b>

16	Social report	Publication of an (annual) audit of social and environmental impacts	<b>social report social account(s) environmental report</b>
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Table 1 Criteria for RBP by grouping

#### *Other variables*

In addition to these criteria other variables need to be considered. Graafland *et al.* (2003, p.52), in their survey of large and small firms in The Netherlands, found that in all the instruments they identified for organising RBP (code of conduct; ISO 9001 / 14001 certification; NEVI code (a code of conduct for suppliers); social report; staff handbook; confidential person; ethics committee; member of the board responsible for ethical issues; and ethical training) small firms typically used these far less than large firms. When correlated against size (number of employees) there was a statistically significant difference ( $p < .05$ ) in relation to ISO certification, social reports, staff handbook and confidential person. Thus, while these criteria are potentially appropriate for SMEs in general it would not be surprising if there were to be a correlation with size, with differences in RBP between micro, small and medium sized enterprises. Independence is clearly also an issue with Graafland *et al.* (2003) finding that subsidiaries generally performed better on most of the instruments, indicating that a form of direct 'ethics supply chain' has an effect on RBP. Other studies in the area of corporate versus social performance (see Moore (2001), Moore & Robson (2002) for a summary) have confirmed the size relation but also found age to be a factor in social performance among large firms, and this might similarly be expected to be a factor for SMEs; the older an SME the more likely that RBP might have become embedded within the firm. Thus, size, independence and age are also variables to be included in any empirical study.

#### Fair Trade organisations

In order to make an initial empirical assessment of the criteria for RBP in SMEs that had been derived it was decided to focus on U.K. Fair Trade organisations. To contextualise Fair Trade, the U.K., which has the largest retail value of Fair Trade goods carrying the Fairtrade Mark in Europe (Krier, 2006, p.15), had an annual turnover of such goods of £493m (circa €600m) in 2007 with more than 3,000 products available. All major supermarket chains in the U.K. sell Fair Trade products together with many smaller stores and catering operations ([www.fairtrade.org.uk](http://www.fairtrade.org.uk), accessed 26 September 2008). A summary of the development, parameters and issues facing Fair Trade from an academic perspective is contained in Moore (2004) and similarly from a practitioner perspective in Wills (2006) (and see also IDC (2007), Nicholls & Opal (2005) and Reynolds *et al.* (2007)). In practice, all Fair Trade organisations are small or medium-sized businesses (SMEs) within the generally accepted definition of up to 250 employees (European Commission, 2003)<sup>2</sup> and so provide a relevant population.

The accepted definition of Fair Trade is as follows:



“Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.” (FINE, 2001)<sup>3</sup>

This definition has, in essence, two basic components. The first is to provide a working model of international trade that makes a difference to the producers and consumers that engage in it and to do so in such a way that social objectives – better trading conditions, the securing of rights and the development of consumer consciousness in the North – are met (see Hayes (2006) and Hayes & Moore (2005) for an understanding of how the economics of Fair Trade works in practice). The second and more radical component of Fair Trade is to challenge orthodoxy in business practice: to be a “tool for modifying the dominant economic model” (Renard, 2003, p.91) and encourage it towards more social ends. It is, of course, this second component that links with RBP and suggests that Fair Trade organisations might be expected to fall into the social enterprise, social priority and champion / active categories identified above. Thus, as a homogenous group with an explicitly ethical approach to business, they form a suitable purposive population in which to find evidence of the applicability and use of the RBP criteria.

However, whether Fair Trade as it has emerged into the mainstream is better able to influence conventional business practice remains open to debate. Low & Davenport (2006) argue that rather than the mainstream adopting Fair Trade practices, Fair Trade has simply been assimilated into mainstream commercial trade where it “will remain a small, lucrative niche” (p.322). But with Traidcraft and Cafédirect (two of the case study organisations in this exploratory study) occupying 6<sup>th</sup> and 7<sup>th</sup> of the most ethically perceived brands in the U.K. in a GfK NOP consumer survey,<sup>4</sup> it seems that consumers identify Fair Trade organisations as ethical businesses. The challenge, however, may be to maintain that position against critics who would wish to see them fall from that high pedestal. Hence again the importance of RBP practices within U.K. Fair Trade organisation would seem to be self-evident. We will return to this issue in the discussion.

### Exploratory study

For the purposes of this study the Fair Trade umbrella organisation of interest was IFAT since this focuses on organisations and sets standards for membership that have some parallels with more general RBP criteria. (The alternative umbrella organisation, FLO, also provides certification standards but these are focused on products rather than organisations – see Moore (2004).)<sup>5</sup> The nine IFAT standards (IFAT, 2005) that were in place at the commencement of the empirical work involved in this study are shown in Appendix 1.<sup>6</sup> The standards cover: creating opportunities for economically disadvantaged producers; transparency and accountability; capacity building; promoting Fair Trade; payment of a fair price; gender equity; working conditions; child labour; and environment. It can be seen from this that these standards follow in some respects conventional RBP criteria, but unsurprisingly have a focus on particular aspects of Fair Trade and its concern with marginalised producers and workers in the

South. Within the Fair Trade movement there is a belief that these Fair Trade standards are superior to conventional RBP criteria.<sup>7</sup> However, it is also clear that in some respects the Fair Trade standards differ from such RBP criteria.

The primary data collection for the exploratory study comprised two stages. Stage one was based on web-site disclosures against the RBP criteria. This was followed up in stage two by direct requests for further information about compliance with these criteria. At the start of the collection period an initial listing of all the U.K. listed IFAT members was extracted from the IFAT membership list ([www.ifat.org](http://www.ifat.org)). For the U.K. there were 16 organisations listed and from this the 11 trading organisations were selected for this study as shown in Table 2 below.<sup>8</sup>

Bishopston Trading Company	Bookchair Company	Cafédirect
Divine Chocolate Ltd.	Equal Exchange Trading	One World Shop
Shared Earth	Shared Interest	Traidcraft
Tropical Forest Products	Tropical Wholefoods	

Table 2. IFAT U.K. Fair Trade organisations included in the study

Given the small number of organisations in the sample, this serves as an exploratory study only to assess the RBP criteria developed above, to provide observations on their applicability to U.K. Fair Trade organisations and more widely to serve as an initial observation on their applicability to SMEs as a whole.

The web-sites of all of the organisations included in the study were reviewed to identify RPB criteria disclosure based on key words. The key words themselves were selected from a prior study of Traidcraft's web-site and are shown in Table 1. Two coding decisions were made against the criteria, firstly a binary present/not present and secondly, where the criterion was present, the number of associated "hits" so providing volumetric data. As well as providing some direct outputs, this preliminary disclosure analysis also performed another function in providing an entrée to the organisations themselves.

The second stage of data collection took place after the web-site coding had been performed and the data analysed. The request to each organisation was partly to comment on the web-site analysis (which was tailored to each organisation), but mainly to supply existing documents such as annual reports, social reports, or to provide files or other material. There was no limit placed on which documents or evidence could be supplied, only a request that they should not be written specifically for the purpose of this survey. The responses complied with this request and were consequently a mixture of hard copy documents, comments by e-mail and electronic file attachments.

#### *Non-response bias*

Organisations that did not respond to the original request to provide further data were contacted by e-mail a second time and in all five organisations responded. Although the response rate was somewhat disappointing given the personal nature of the approach used, there was no evidence of response bias.

## Results

### *Web-site analysis*

The results of the web-site analysis against the RBP criteria are shown in Figure 1. The graph shows “Present” referring to whether a web-site provided disclosure against that criterion. The results are expressed as a percentage of all organisations. Numbers of “hits” (i.e. the number of times a particular criterion was disclosed) are also shown and are reported as a percentage of the total number of hits and thus sum to 100%. Two of the web-sites were “retail only”, i.e. they were directed entirely at selling products rather than giving organisational information. Nonetheless, there was some incidental disclosure even on these sites and, as the public face of these organisations, their results were included in the analysis.

Some criteria, as anticipated, have no disclosure against them which may suggest that these are not culturally appropriate in the U.K. (e.g. having a Board member responsible for ethics). On the other hand, one might expect Fair Trade organisations to have an ethics committee, but this is not the case according to the web-sites. Environment, community and suppliers dominate the “hits” with employees and customers following. In total, against all criteria for all organisations (i.e. 16 x 11), the disclosure rate was 49.6%.

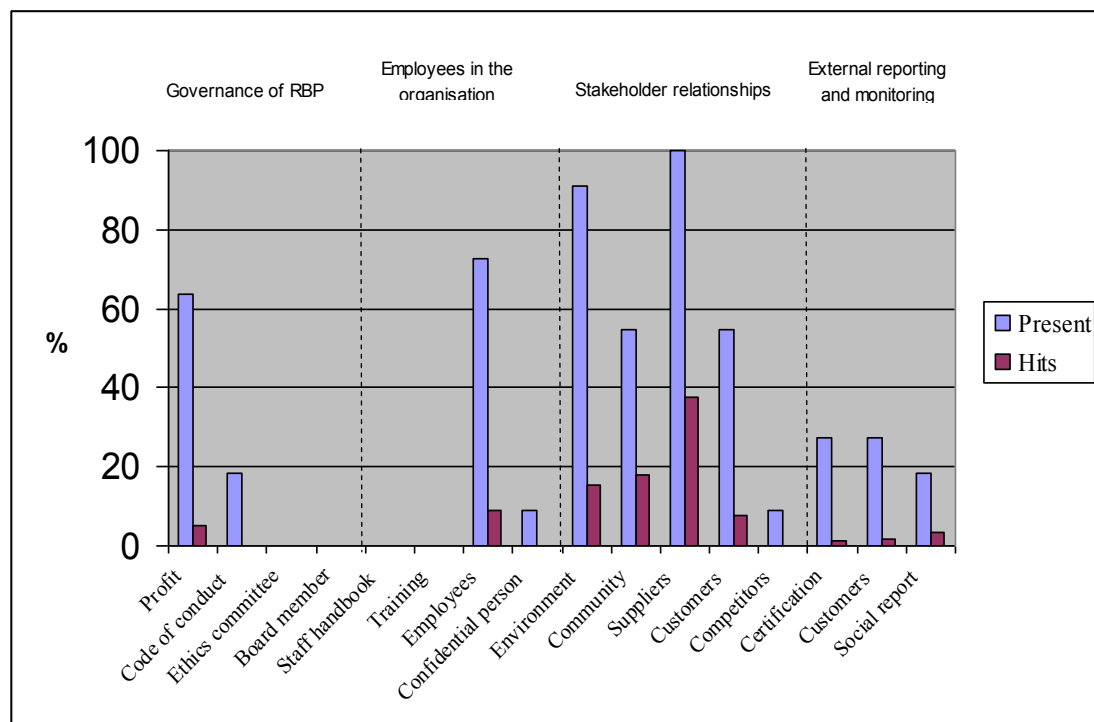


Figure 1. RBP criteria by importance

### *Follow-up request for further data*

The responses to the request for further data were analysed by considering each comment, document or file in turn and recording evidence concerning compliance against the RBP criteria. While this could be considered as a self-reporting disclosure study, the compliance with the request to provide existing documents and not to

answer a survey provides some reassurance that what is being measured is genuinely performance rather than merely disclosure. In this case no volumetric analysis was conducted, the point being to assess whether there was sufficient evidence to show that criteria that had previously been recorded as not met according to the web-site analysis were, in fact, being met.

The findings were in line with what had been expected. On RBP criteria the compliance rate increased from 32.5% (well below the average for all organisations’ web-sites of 49.6% noted above) to 57.5% following full disclosure. This is a significant rise in itself and to well above the average for all organisations based only on their web-site disclosure. In particular, criteria related to profit levels, codes of conduct (which could include a values statement), the presence of staff handbooks, responsibility to employees, responsibility to the community (interpreted as local to the organisation in the U.K. rather than communities in developing countries), responsibility to customers, and communication with stakeholders all became much more evident where previously the web-sites had not disclosed very much against these criteria. The results are shown in Figure 2.

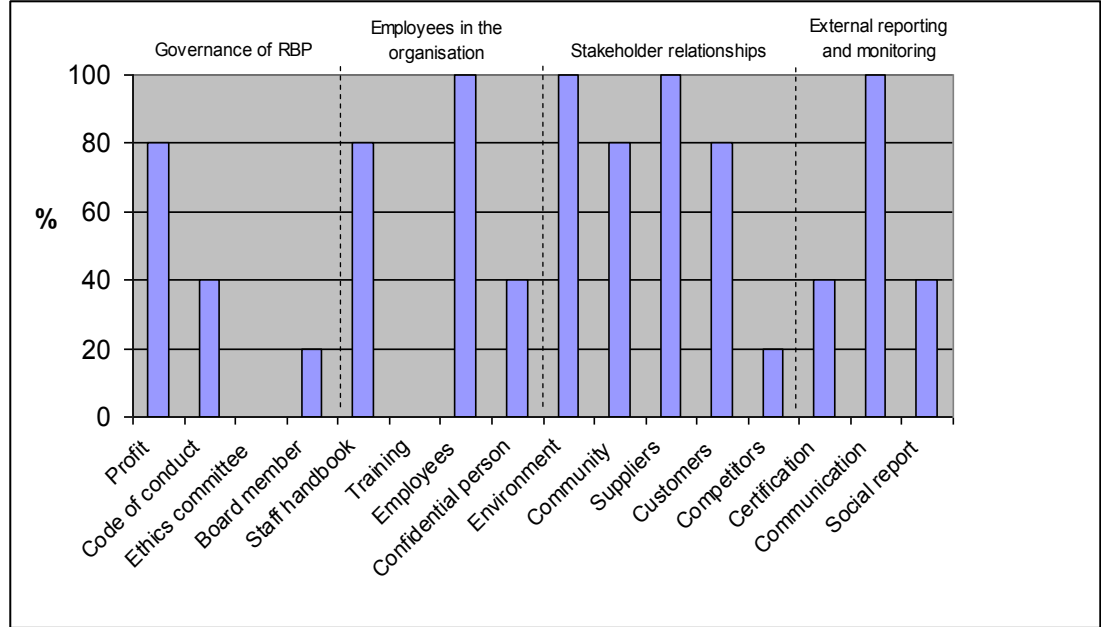


Figure 2 RBP criteria – follow-up respondents only

In relation to the groupings identified above, the picture is mixed. The governance of RBP is evident to some extent but with no ethics committees. Employees in the organisation is also evident but with no training for employees. Stakeholder relationships was the strongest grouping with only competitors having a limited response. External reporting and monitoring is also evident but, not surprisingly, communication with stakeholders dominates this grouping.

There could be some confusion or reluctance to identify other Fair Trade organisations as competitors rather than collaborators in a movement given the network they form, so it is possible that the low response rate here is explicable. In relation to the two criteria against which there was no evidence, it is entirely reasonable to suppose that for these particular organisations, with their strong ethical basis in being part of the Fair Trade movement, the requirement to formalise ethics

issues by an ethics committee, for example, or by providing specific ethics training to employees, is considered irrelevant. That only two organisations had a code of conduct – and in both cases this was a values statement rather than a full code that might be found in larger firms – seems to confirm this. Only two organisations, however, had a confidential person in place to whom employees could turn. In line with good whistle-blowing practice this might be an area for further consideration. That two organisations were engaged in social reporting (and, indeed, one of these – Traidcraft – has won awards for its social reports), suggests that social reporting is not necessarily beyond SMEs, in contrast with Fassin's (2008) claims that social reporting is inappropriate for SMEs.

As noted above, then, these findings confirm what had been expected – that these organisations were, in practice, more fully engaged in RBP activities than their web-sites had indicated.

#### *Age, size and independence*

The organisations are all independent of parent companies, the one exception being Divine Chocolate Ltd. (<http://www.divinechocolate.com>, accessed 25 September 2008) which is owned by a combination of Kuapa Kokoo (the cocoa farmers which supply it), Twin Trading and Oikocredit (an international development finance institution). In addition Christian Aid owns preference shares. This interesting structure is unique amongst the organisations surveyed but it does not match with conventional ownership which is the usual criterion against which independence is judged. Hence, no analysis of the results against independence was possible. Analyses against size (turnover) and age (years since foundation) showed no statistically significant correlation for either the web-site disclosure or the full responses from the five organisations. A larger and more diverse population would, therefore, be needed to enable analysis of these variables.

## Discussion

### *The sample*

SMEs can be viewed as a disparate mix of businesses being far more informal in organisational structure, internal reporting and lines of communication when compared to large businesses. Emerging from such characteristics it is fair to say that SMEs are not homogeneous, are sometimes driven by owner-manager values, and so can be difficult to compare directly both to each other and certainly against larger businesses. Jenkins (2004, p.40) has already highlighted this problem with SME research in that “usually underlying these discussions are certain suppositions that may not apply to the average SME”.

One aspect of this exploratory study is that the fundamental values of the businesses examined are shared, with Fair Trade values underpinning all of the organisations in this study. Within this study, then, there was no need to overlay or identify a values matrix approach around differentiating characteristics as suggested in Southwell's (2004) typology or Spence and Rutherford's (2001) classification, referred to above. Thus, as noted above, this sample falls entirely within the “Ben and Anitas” type or the “social priority” class, and could similarly be characterised amongst the “champions for CSR” (Jenkins, 2006). However, this means that the results from this

study are not necessarily transferable to other types of SME, though they should be directly comparable with other SMEs of their type. However, as a means of exploring RBP criteria the sample was appropriate.

#### *RBP criteria and groupings*

That 14 from the 16 criteria derived from the literature were found to be present in at least one or more of the Fair Trade organisations when the detailed follow-up responses were analysed, and that there may be reasonable explanations for the absence of the other two criteria, suggests that these 16 criteria do form a sound basis on which future research in this area might be conducted. While the concern about the formalisation of RBP in SMEs was noted above, it seems that such criteria are appropriate to and observable within SMEs.

However, the fact that the response rate was only 49.6% for the web-site disclosure rising to 57.5% for the full responses, indicates that only about half of these criteria are satisfied in the organisations studied. However, within the four groupings of criteria that were identified, each has a majority of criteria present. Further studies should both confirm the criteria themselves and give further data on the extent to which SMEs do comply with these criteria. Particular attention might be paid to those criteria where no or limited evidence was provided of compliance and to other classifications of SME to see whether they satisfy more or fewer criteria. Overall, however, the main contribution of the paper has been met – to derive a set of criteria for RBP in SMEs and to conduct an initial empirical test to confirm their applicability. The grouping of the criteria into internal (governance of RBP and employees) and external (stakeholder relationships and reporting and monitoring) areas may also be useful in emphasising these groupings over individual criteria within them.

#### *Under-reporting of RBP activity*

SMEs on their own have been viewed as insignificant in relation to influencing other businesses or stakeholders around them or through the supply chain. Jenkins (2006, p.243) asserted that “SMEs remain largely invisible” in relation to RBP and, if this is the case, then the broadening and adoption of RBP by others is made more difficult as even the champions of RBP remain largely hidden from view. This was borne out by Jenkins’ (2006) study which specifically examined SME CSR champions and still concluded that, “many companies were uncomfortable with the idea of promoting their CSR activities [which was] seen as a “big business” thing to do” (p. 250).

However, as one of the fundamental aims for Fair Trade is to raise social awareness and to challenge the orthodoxy in business practice, the level of reporting and disclosure to help achieve these aims might be expected to be high in these organisations. Moreover, as all organisations in this study have a shared Fair Trade identity from their IFAT membership, the problematic issue of their collective visibility could be reduced due to the public recognition of Fair Trade goods and the Fair Trade brand. Thus, such a collective SME group (a network) could galvanise RBP via a holistic approach rather than through the efforts of single entities. This could lead to a common RBP message, but in order for this message and practice to be seen and adopted by others it would need communication and wide disclosure. A similar approach could be advanced for industry specific or local groupings of SME to promote RBP as a group rather than it reside solely within individual entities.

However, allowing for the tentative nature of the web-site disclosure results, this study suggests that such dissemination of good practice is not, in general, taking place to the extent that might be expected. That performance for the five respondents in general nearly doubled over their disclosure is evidence of this. This, however, confirms results commonly found in other studies. Jenkins (2006) reported that, “only three companies [out of 24 in the study] reported on any aspect of their CSR and none reported annually” (p. 249), and Murillo and Lozano (2006) found “the companies [all SMEs] ... do not appear to communicate their social practices to any great extent” (p.236). However, of interest is that one of the companies, Shared Interest, now has a specific reference to CSR on its home page ([www.shared-interest.com](http://www.shared-interest.com), accessed 25 September 2008).

#### *Level of RBP activity*

The apparent under-disclosure of RBP activity, discussed above, needs to be contrasted with the actual level of RBP performance. Whilst, as noted, some of the criteria – such as having an ethics committee or providing ethics training – may not be appropriate either for these organisations in particular or in a U.K. context, there are a number of possible areas for consideration, based on the responses from the five respondent organisations, in relation to developing RBP activities. These would seem to be important areas for Fair Trade organisations to attend to if their ability to challenge mainstream organisations is not eventually to be undermined.

However, even allowing for these weaknesses, it is not clear from this analysis that Low & Davenport’s (2006) argument that Fair Trade has simply been assimilated into mainstream commercial trade is supported. Fair Trade organisations do comply with a number of RBP criteria. Their emphasis on suppliers is evident, as would be expected, and this aspect in particular does challenge the mainstream about its own supply chain practices. Similarly, their focus on employees, communication with stakeholders and responsibility to the environment (all five respondents meeting these criteria) is further evidence of good practice. While Fair Trade organisations could and probably should do more to ensure compliance with general RBP criteria, the failings evident from this study do not suggest that their whole approach to the mainstream is currently undermined by their lack of attention to such criteria.

#### Conclusions

We have derived from the literature a set of 16 criteria for RBP in SMEs grouped into four categories (governance of RBP; employees in the organisation; stakeholder relationships; external reporting and monitoring). Fourteen of the 16 RBP criteria were found to be satisfied in at least one of the sample organisations. The two exceptions – the presence of an ethics committee and ethics training for employees – have reasonable explanations as to why, in U.K. Fair Trade organisations, they might not be satisfied. Hence, it seems reasonable to conclude that these 16 criteria should form the basis for further research. Such research, across a broader and international range of SMEs, including those outside the Fair Trade movement, might help to confirm or improve upon these 16 criteria and to assess whether the 57.5% ‘satisfaction’ rating for the five respondent organisations is common in other groups of SMEs. Further research may also identify similarities or disparities in RBP practice

in relation to independence, size and age, and may provide evidence across sectors and in other geographic regions.

In relation to the Fair Trade organisations, development of their web-sites in relation to RBP criteria to more accurately reflect actual practice would seem to be a desirable action, together with some action on other RBP criteria where practice is currently lacking. This needs to recognise, however, that for some of these organisations the resource available to do this is limited and the focus is quite rightly on practical action in relation to Fair Trade rather than on RBP activities in general. Nonetheless, with the broader objective of Fair Trade being to influence the mainstream, such RBP disclosure and practice might be seen to be part of what a Fair Trade organisation should be doing. However, there is insufficient evidence here to suggest that currently Fair Trade's ability to influence the mainstream is undermined by deficiencies in such practice.

Finally, the study reported here was intended only as exploratory within the U.K. in order to assess the appropriateness of the 16 RBP criteria. In relation to Fair Trade, this study could be extended to all trading organisations in the IFAT fold. IFAT has already been presented with the report and recommendations that were provided to the organisations that responded to the request for further information, and so is already in a position to recommend action to its members. The extension of this initial exploratory study to such a large, international and multi-lingual population would potentially provide a rich, comparative set of data from which more general conclusions could be drawn.



## Notes

1. It is interesting to note that the European Parliament resolution on corporate social responsibility “believes that the Commission should also consider establishing a list of criteria for enterprises to respect if they claim to be responsible” (European Parliament, 2007, p.3).
2. Micro-businesses are defined as less than 10 employees, small as between 10 and 50, and medium as between 50 and 250 – see, for example, European Commission (2003, p.28).
3. FINE is an informal network that involves the Fairtrade Labelling Organizations International (FLO), the International Federation for Alternative Trade (IFAT), the Network of European Shops (NEWS!) and the European Fair Trade Association (EFTA).
4. The brands above the Fair Trade organisations were, in rank order, the Co-op, Body Shop, Marks & Spencer, Ecover and Green & Blacks. See [http://www.gfknop.com/imperia/md/content/gfk\\_nop/coes/brandstrategy/ethical\\_brands\\_top\\_level\\_findings\\_may08.pdf](http://www.gfknop.com/imperia/md/content/gfk_nop/coes/brandstrategy/ethical_brands_top_level_findings_may08.pdf), accessed 26 September 2008.
5. FLO currently sets standards for the following products: bananas, cocoa, coffee, dried fruit, fresh fruit and fresh vegetables, fruit juices, herbs and spices, honey, nuts and oil seeds, quince, rice, cane sugar, tea, wine grapes, flowers and plants, seed cotton and sports balls – [www.fairtrade.net/standards.html](http://www.fairtrade.net/standards.html), accessed 26 September 2008.
6. IFAT has since added a tenth criterion: “Trade Relations: The organization trades with concern for the social, economic and environmental well-being of marginalized small producers and does not maximise profit at their expense. It is responsible and professional in meeting its commitments in a timely manner. Suppliers respect contracts and deliver products on time and to the desired quality and specifications. Producers and suppliers are paid in a timely manner and in line with agreements made. Whenever possible and if help is required, producers are assisted with access to pre-harvest or pre-production financing (advance payments). Buyers consult with suppliers before cancelling or rejecting orders. Where orders are cancelled through no fault of producers or suppliers, adequate compensation is guaranteed for work already done. The organization maintains long term relationships based on solidarity, trust and mutual respect that contribute to the promotion and growth of fair trade. It maintains effective communication with its trading partners. Parties involved in a trading relationship seek to increase the volume of the trade between them and the value and diversity of their product offer as a means of growing fair trade for the producers. Buyers support processes which add value for producers in order to increase their incomes. The organization works cooperatively with other FTO’s in country and avoids unfair competition. It avoids duplicating the designs or patterns of other organizations without permission.” (IFAT, 2008).
7. Conversation with Marietta Shimizu-Larenas, Assistant Director of IFAT during a visit to the IFAT offices, 26 June 2006.
8. Five non-trading organisations also had IFAT membership: The British Association for Fair Trade Shops (BAFTS); Oxfam GB; Oxfam Ireland / Northern Ireland; The Body Shop Foundation; and Traidcraft Exchange. The membership changes so that, for example, Traidcraft and Twin Trading were not included at the time of accessing the web-site (November 2005), despite being long-standing Fair Trade organisations and being on the web-site when the initial parameters of the research were being

discussed. These two organisations do now appear again ([www.ifat.org](http://www.ifat.org), accessed 26 September 2008).

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# IFAT standards

	Standard	Description
1	Creating opportunities for economically disadvantaged producers	The organisation supports economically disadvantaged or marginalised producers. It seeks to enable them to move from a position of vulnerability to one of security and from material poverty to income and ownership.
2	Transparency and accountability	The organisation is transparent in its management and commercial relations and deals fairly and respectfully with its trading partners. It is accountable to all its stakeholders. The organisation finds appropriate, participatory ways to involve employees / staff and producers in its decision-making processes and gives special attention to the dissemination of relevant information to all its trading partners.
3	Capacity building	The organisation seeks to develop producers' skills ... and commits to providing continuity in its trading relationships with its partners in the supply chain over an agreed given period. The organisation also develops the skills of its own employees / staff.
4	Promoting Fair Trade	The organisation raises awareness of the aim of Fair Trade and of the possibility for greater justice in world trade through Fair Trade. It acknowledges the importance of customers for the growth and effectiveness of its movement. Customers are provided with information about the organisations, the products, and in what conditions they are made. Honest advertising and marketing techniques are used. The organisation aims for the highest standards in product quality and packing.
5	Payment of a fair price	A fair price is one that has been mutually agreed by all through dialogue and participation, which provides fair pay to the producers and can also be sustained by the market. Fair Trade buyers, importers and intermediaries ensure prompt payment to their producers and other partners.
6	Gender equity	The organisation provides opportunities for women and men to develop their skills and actively promotes applications from women for job vacancies. Women employees are provided with leadership training and encouraged to seek leadership roles. Organisations working directly with producers ensure women's work is properly valued and rewarded. Women participate in decisions concerning the use of benefits accruing from the production process. Local cultures and traditions are respected and steps taken to avoid discrimination on the grounds of religion, disability, caste or age.
7	Working conditions	The organisation is taking steps to promote a safe and healthy working environment for producers. Working hours are in line with the conditions established by the law and ILO convention.
8	Child labour	The organisation and its members respect the UN Convention on the Rights of the Child, as well as the law and social norms in the local context.
9	Environment	The organisation maximises the use of raw materials from sustainably managed sources buying locally when possible. Recycled or easily biodegradable materials are used for packing and goods are dispatched by sea wherever possible. The organisation promotes the use of technology that respects the environment as well as the use of initiatives to reduce energy consumption, and creates awareness of environmental hazards.

Source: Adapted from IFAT Standards, 2005